

For Six Month Period Ending 8/1/10-1/31/11

(Insert date)

**I - REGISTRANT**

1. (a) Name of Registrant (b) Registration No.  
KWR International, Inc. 5119
- (c) Business Address(es) of Registrant  
10 West 66th Street  
New York, New York 10023

2. Has there been a change in the information previously furnished in connection with the following:

- (a) If an individual:
- |                           |                              |                             |
|---------------------------|------------------------------|-----------------------------|
| (1) Residence address(es) | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| (2) Citizenship           | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| (3) Occupation            | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
- (b) If an organization:
- |                          |                              |  |
|--------------------------|------------------------------|--|
| (1) Name                 | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| (2) Ownership or control | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
| (3) Branch offices       | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> |
- (c) Explain fully all changes, if any, indicated in items (a) and (b) above.

NSD/CES/REGISTRATION  
UNIT  
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**IF THE REGISTRANT IS AN INDIVIDUAL, OMIT RESPONSE TO ITEMS 3, 4 AND 5(a).**

3. If you have previously filed Exhibit C<sup>1</sup>, state whether any changes therein have occurred during this 6 month reporting period.

Yes ☐ No ☒

If yes, have you filed an amendment to the Exhibit C? Yes ☐ No ☐

If no, please attach the required amendment.

<sup>1</sup> The Exhibit C, for which no printed form is provided, consists of a true copy of the charter, articles of incorporation, association, and by laws of a registrant that is an organization. (A waiver of the requirement to file an Exhibit C may be obtained for good cause upon written application to the Assistant Attorney General, National Security Division, U.S. Department of Justice, Washington, DC 20530.)

4. (a) Have any persons ceased acting as partners, officers, directors or similar officials of the registrant during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

Name	Position	Date connection ended
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- (b) Have any persons become partners, officers, directors or similar officials during this 6 month reporting period?

Yes ☐ No ☒

If yes, furnish the following information:

Name	Residence address	Citizenship	Position	Date assumed
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5. (a) Has any person named in item 4(b) rendered services directly in furtherance of the interests of any foreign principal?

Yes ☐ No ☒

If yes, identify each such person and describe his service.

- (b) Have any employees or individuals, who have filed a short form registration statement, terminated their employment or connection with the registrant during this 6 month reporting period? Yes ☐ No ☒

If yes, furnish the following information:

Name	Position or connection	Date terminated
------	------------------------	-----------------

- (c) During this 6 month reporting period, has the registrant hired as employees or in any other capacity, any persons who rendered or will render services to the registrant directly in furtherance of the interests of any foreign principal(s) in other than a clerical or secretarial, or in a related or similar capacity? Yes ☐ No ☒

If yes, furnish the following information:

Name	Residence address	Citizenship	Position	Date assumed
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6. Have short form registration statements been filed by all of the persons named in Items 5(a) and 5(c) of the supplemental statement?

Yes ☒ No ☐

If no, list names of persons who have not filed the required statement.

**II - FOREIGN PRINCIPAL**


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7. Has your connection with any foreign principal ended during this 6 month reporting period?

Yes ☐ No ☒

If yes, furnish the following information:

Name of foreign principal

Date of termination

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8. Have you acquired any new foreign principal<sup>2</sup> during this 6 month reporting period?

Yes ☐ No ☒

If yes, furnish the following information:

Name and address of foreign principal

Date acquired

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9. In addition to those named in Items 7 and 8, if any, list foreign principals<sup>2</sup> whom you continued to represent during the 6 month reporting period.

JETRO New York

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10. **EXHIBITS A AND B**

(a) Have you filed for each of the newly acquired foreign principals in Item 8 the following:

Exhibit A <sup>3</sup>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Exhibit B <sup>4</sup>	Yes <input type="checkbox"/>	No <input type="checkbox"/>

If no, please attach the required exhibit.

(b) Have there been any changes in the Exhibits A and B previously filed for any foreign principal whom you represented during the 6 month period? Yes ☐ No ☒

If yes, have you filed an amendment to these exhibits? Yes ☐ No ☒

If no, please attach the required amendment.

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<sup>2</sup> The term "foreign principal" includes, in addition to those defined in Section 1(b) of the Act, an individual organization any of whose activities are directly or indirectly supervised, directed, controlled, financed, or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual. (See Rule 100(a) (9).) A registrant who represents more than one foreign principal is required to list in the statements he files under the Act only those principals for whom he is not entitled to claim exemption under Section 3 of the Act. (See Rule 208.)

<sup>3</sup> The Exhibit A, which is filed on Form NSD-3 (Formerly CRM-157), sets forth the information required to be disclosed concerning each foreign principal.

<sup>4</sup> The Exhibit B, which is filed on Form NSD-4 (Formerly CRM-155), sets forth the information concerning the agreement or understanding between the registrant and the foreign principal.

**III - ACTIVITIES**

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11. During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in Items 7, 8, and 9 of this statement? Yes ☒ No ☐

If yes, identify each such foreign principal and describe in full detail your activities and services:

JETRO New York

Preparation and publication of newsletters

Preparation of interviews on alternative energy-related projects

Preparation of research on US information technology policy

Counsel and assistance in preparation of documents for 2010 APEC meeting in Yokohama

Media monitoring and counsel

- 
12. During this 6 month reporting period, have you on behalf of any foreign principal engaged in political activity<sup>5</sup> as defined below? Yes ☐ No ☒

If yes, identify each such foreign principal and describe in full detail all such political activity, indicating, among other things, the relations, interests and policies sought to be influenced and the means employed to achieve this purpose. If the registrant arranged, sponsored or delivered speeches, lectures or radio and TV broadcasts, give details as to dates and places of delivery, names of speakers and subject matter.

- 
13. In addition to the above described activities, if any, have you engaged in activity on your own behalf which benefits any or all of your foreign principals? Yes ☒ No ☐

If yes, describe fully.

media monitoring and counsel

attendance at luncheon/conference meetings

publication of Asia-related articles and interviews

maintenance of twitter feeds

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<sup>5</sup> The term "political activities" means any activity that the person engaging in believes will, or that the person intends to, in any way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting or changing the domestic or foreign policies of the United States or with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

## IV - FINANCIAL INFORMATION

### 14. (a) RECEIPTS - MONIES

During this 6 month reporting period, have you received from any foreign principal named in Items 7, 8, or 9 of this statement, or from any other source, for or in the interests of any such foreign principal, any contributions, income or money either as compensation or otherwise? Yes ☒ No ☐

If no, explain why.

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies<sup>6</sup>.

Date	From whom	Purpose	Amount
8/1/10-1/31/11	JETRO New York	Newsletters, research, interviews, APEC-related activity	\$40,000

\$40,000

Total

### (b) RECEIPTS - FUND RAISING CAMPAIGN

During this 6 month reporting period, have you received, as part of a fund raising campaign<sup>7</sup>, any money on behalf of any foreign principal named in items 7, 8, or 9 of this statement? Yes ☐ No ☒

If yes, have you filed an Exhibit D<sup>8</sup> to your registration? Yes ☐ No ☒

If yes, indicate the date the Exhibit D was filed. Date \_\_\_\_\_

### (c) RECEIPTS - THINGS OF VALUE

During this 6 month reporting period, have you received any thing of value<sup>9</sup> other than money from any foreign principal named in Items 7, 8, or 9 of this statement, or from any other source, for or in the interests of any such foreign principal? Yes ☐ No ☒

If yes, furnish the following information:

Name of foreign principal	Date received	Description of thing of value	Purpose
------------------------------	------------------	----------------------------------	---------

<sup>6</sup>, <sup>7</sup> A registrant is required to file an Exhibit D if he collects or receives contributions, loans, money, or other things of value for a foreign principal, as part of a fund raising campaign. (See Rule 201(e).)

<sup>8</sup> An Exhibit D, for which no printed form is provided, sets forth an account of money collected or received as a result of a fund raising campaign and transmitted for a foreign principal.

<sup>9</sup> Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

15. (a) **DISBURSEMENTS – MONIES**

During this 6 month reporting period, have you

(1) disbursed or expended monies in connection with activity on behalf of any foreign principal named in Items 7, 8, or 9 of this statement? Yes ☒ No ☐(2) transmitted monies to any such foreign principal? Yes ☐ No ☒

If no, explain in full detail why there were no disbursements made on behalf of any foreign principal.

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies, including monies transmitted, if any, to each foreign principal.

Date	To whom	Purpose	Amount
------	---------	---------	--------

		During the 8/1/10-1/31/11 period, registrant has disbursed:	
--	--	---	--

		JETRO New York	
		Research/Analysis (estimated)	\$1,500
		Office/Misc. (estimated)	\$1,000
		Registration Fee	\$ 305

	Total		\$2,805
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\$2,805
<u>Total</u>

**(b) DISBURSEMENTS – THINGS OF VALUE**

During this 6 month reporting period, have you disposed of anything of value<sup>10</sup> other than money in furtherance of or in connection with activities on behalf of any foreign principal named in Items 7, 8, or 9 of this statement?

Yes ☐ No ☒

If yes, furnish the following information:

Date disposed	Name of person to whom given	On behalf of what foreign principal	Description of thing of value	Purpose
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**(c) DISBURSEMENTS – POLITICAL CONTRIBUTIONS**

During this 6 month reporting period, have you from your own funds and on your own behalf either directly or through any other person, made any contributions of money or other things of value<sup>11</sup> in connection with an election to any political office, or in connection with any primary election, convention, or caucus held to select candidates for political office?

Yes ☐ No ☒

If yes, furnish the following information:

Date	Amount or thing of value	Name of political organization	Name of candidate
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<sup>10, 11</sup> Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks" and the like.

**V - INFORMATIONAL MATERIALS**

16. During this 6 month reporting period, did you prepare, disseminate or cause to be disseminated any informational materials<sup>12</sup>?  
 Yes ☒ No ☐

IF YES, RESPOND TO THE REMAINING ITEMS IN SECTION V.

17. Identify each such foreign principal.

JETRO New York

18. During this 6 month reporting period, has any foreign principal established a budget or allocated a specified sum of money to finance your activities in preparing or disseminating informational materials? Yes ☐ No ☒

If yes, identify each such foreign principal, specify amount, and indicate for what period of time.

19. During this 6 month reporting period, did your activities in preparing, disseminating or causing the dissemination of informational materials include the use of any of the following:

- |   |  |  |  |
|---|--|--|--|
| <input type="checkbox"/> Radio or TV broadcasts | <input checked="" type="checkbox"/> Magazine or newspaper articles | <input type="checkbox"/> Motion picture films            | <input checked="" type="checkbox"/> Letters or telegrams |
| <input type="checkbox"/> Advertising campaigns  | <input checked="" type="checkbox"/> Press releases                 | <input type="checkbox"/> Pamphlets or other publications | <input type="checkbox"/> Lectures or speeches            |
| <input checked="" type="checkbox"/> Internet    | <input checked="" type="checkbox"/> Other (specify) <u>twitter</u> |  |  |

20. During this 6 month reporting period, did you disseminate or cause to be disseminated informational materials among any of the following groups:

- |   |  |  |
|---|--|--|
| <input checked="" type="checkbox"/> Public officials    | <input checked="" type="checkbox"/> Newspapers                   | <input checked="" type="checkbox"/> Libraries                |
| <input type="checkbox"/> Legislators                    | <input checked="" type="checkbox"/> Editors                      | <input checked="" type="checkbox"/> Educational institutions |
| <input checked="" type="checkbox"/> Government agencies | <input checked="" type="checkbox"/> Civic groups or associations | <input type="checkbox"/> Nationality groups                  |
| <input type="checkbox"/> Other (specify) _____          |  |  |

21. What language was used in the informational materials:

- ☒ English ☐ Other (specify) \_\_\_\_\_

22. Did you file with the Registration Unit, U.S. Department of Justice a copy of each item of such informational materials disseminated or caused to be disseminated during this 6 month reporting period? Yes ☒ No ☐

23. Did you label each item of such informational materials with the statement required by Section 4(b) of the Act? Yes ☒ No ☐

<sup>12</sup> The term informational materials includes any oral, visual, graphic, written, or pictorial information or matter of any kind, including that published by means of advertising, books, periodicals, newspapers, lectures, broadcasts, motion pictures, or any means or instrumentality of interstate or foreign commerce or otherwise. Informational materials disseminated by an agent of a foreign principal as part of an activity in itself exempt from registration, or an activity which by itself would not require registration, need not be filed pursuant to Section 4(b) of the Act.



**VI - EXECUTION**

In accordance with 28 U.S.C. §1746, the undersigned swear(s) or affirm(s) under penalty of perjury that he/she has (they have) read the information set forth in this registration statement and the attached exhibits and that he/she is (they are) familiar with the contents thereof and that such contents are in their entirety true and accurate to the best of his/her (their) knowledge and belief, except that the undersigned make(s) no representation as to the truth or accuracy of the information contained in the attached Short Form Registration Statement(s), if any, insofar as such information is not within his/her (their) personal knowledge.

(Date of signature )

2/23/11

(Type or print name under each signature<sup>13</sup>)

Keith W. Rubin

<sup>13</sup> This statement shall be signed by the individual agent, if the registrant is an individual, or by a majority of those partners, officers, directors or persons performing similar functions, if the registrant is an organization, except that the organization can, by power of attorney, authorize one or more individuals to execute this statement on its behalf.

UNITED STATES DEPARTMENT OF JUSTICE  
FARA REGISTRATION UNIT  
NATIONAL SECURITY DIVISION  
WASHINGTON, D.C. 20530

**NOTICE**

Please answer the following questions and return this sheet in triplicate with your Supplemental Statement:

1. Is your answer to Item 16 of Section V (Informational Materials – page 8 of Form NSD-2, formerly Form CRM-154 Supplemental Statement):

YES                      or NO                     

(If your answer to question 1 is "yes" do not answer question 2 of this form.)

2. Do you disseminate any material in connection with your registration:

YES                      or NO                     

(If your answer to question 2 is "yes" please forward for our review copies of all material including: films, film catalogs, posters, brochures, press releases, etc. which you have disseminated during the past six months.)

                      
Signature

2/23/11  
Date

Keith W. Robin  
Please type or print name of  
Signatory on the line above

President  
Title



**U.S. Department of Justice**

**National Security Division**

*Washington, DC 20530*

THIS FORM IS TO BE AN OFFICIAL ATTACHMENT TO YOUR CURRENT SUPPLEMENTAL  
STATEMENT - PLEASE EXECUTE IN TRIPLICATE

SHORT-FORM REGISTRATION INFORMATION SHEET

SECTION A

The Department records list active short-form registration statements for the following persons of your organization filed on the date indicated by each name. If a person is not still functioning in the same capacity directly on behalf of the foreign principal, please show the date of termination.

**Short Form List for Registrant: KWR International, Inc.**

Last Name	First Name and Other Names	Registration Date	Termination Date	Role
Rabin	Keith W.	02/28/2003		

NSD/CES/REGISTRATION  
UNIT  
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U.S. Department of Justice

National Security Division

Washington, DC 20530

SECTION B

In addition to those persons listed in Section A, list below all current employees rendering services directly on behalf of the foreign principals(s) who have not filed short-form registration statements. (Do not list clerks, secretaries, typists or employees in a similar or related capacity). If there is some question as to whether an employee has an obligation to file a short-form, please address a letter to the Registration Unit describing the activities and connection with the foreign principal.

Name	Function	Date Hired
<i>Nohe</i>		

NSD/CES/REGISTRATION  
UNIT  
2011 MAR - 1 PM 3:54

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

2/23/11

Title: \_\_\_\_\_

*Keith Robin, President*

## Japanese Fundamentals Drive Adoption of New Industrial Structure Vision

SEPTEMBER 2010

Since the collapse of Japan's bubble economy in 1990, the country has delivered sluggish economic performance despite holding a significant technological advantage over many competitors. To restore its national dynamism, major reform efforts have been initiated. While substantial progress has been achieved, Japan remains embroiled in a severe deflationary situation with important structural consequences.

Dissatisfaction with the existing system led Japanese voters to award power to the Democratic Party of Japan (DPJ) last September -- after 50 years of Liberal Democratic Party (LDP) rule. Promising a new approach, Japan's incoming administration commissioned a Special Task Force, which released "The Industrial Structure Vision 2010" last May. It was adopted by the Japanese Cabinet as the basis for a New Growth Strategy on June 18, 2010.

The Vision objectively recognizes the very serious problems and issues that currently impinge on the performance of Japanese industry and its domestic economy. It establishes long-term goals, strategic areas of focus, as well as policy recommendations, milestones and timelines. These measures are designed to strengthen Japan's ability to develop more globally-orientated firms and to provide a more hospitable, open and attractive business environment.

### IN THIS ISSUE:

- Japanese Fundamentals Drive Adoption of New Industrial Structure Vision
- Industrial Structure Vision Takes into Account Severity of Current Situation
- Problem Areas of Japan's Industrial Structure
- The Galapagos Effect - How Japan Wins in Technology, but not in Business
- Enhancing Competitiveness through New Drivers of Growth & Employment
- And More!

## **Industrial Structure Vision Takes into Account Severity of Current Situation**

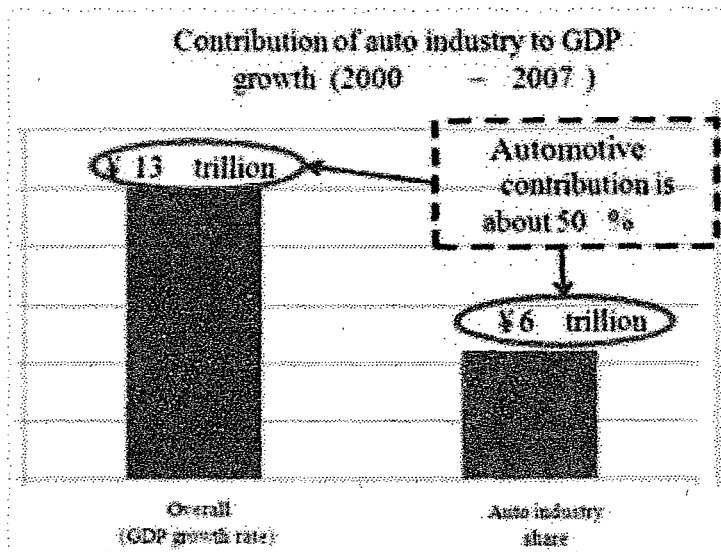
Former Minister of Economy, Trade and Industry Masayuki Naoshima highlighted the need to devise a comprehensive plan in a recent address which urged Japan to "shake off the sense of stagnation among the people". Recognizing honest assessment is essential to revive Japan's economy and to restore the confidence of its society, the Vision begins with the introspective analysis needed to define the core problems that constrain its economic viability.

Chief Japan Strategist Naoki Kamiyama further examined these thoughts in a recent Deutsche Bank report stating "If there is such a thing as Japanese-style capitalism, it cannot mean simply maintaining the status quo. Japanese companies must analyze Japan's strengths and capitalize on them amidst the nation's shrinking and graying population and globalization."

The Vision is therefore based on an understanding that Japan's industrial structure, its corporate business model, and business infrastructure are all highly interconnected. This makes it essential to formulate a comprehensive plan that employs a system-wide approach.

### **Problem Areas of Japan's Industrial Structure**

Postwar Japan has relied heavily on its automobile industry for both domestic and export consumption. As a result, almost 50% of Japan's GDP growth from 2000-2007 can be attributed to the automotive industry. Although Japan's success in the automotive sector was a major factor in its development as a global economic power, and continues to represent a source of competitive strength, this overdependence is no longer sufficient to sustain growth in a complex, mature economy that requires a broader base.



Source: Japanese Ministry of Economy, Trade and Industry

This year's Toyota recall, for example, demonstrates the effect that significant problems in one sector can have on secondary and tertiary industries. As Patrick Cronin of *Foreign Policy* magazine explains, "Toyota's crisis serves to further highlight the fragility of Japan's current position: If your soft power dissipates, it leaves you feeling very vulnerable indeed." Incidents like these underscore the vulnerability of the country's economic status within an industrial structure that remains overly focused on one industry.

The Vision also highlights problems related to domestic competition. In comparison to overseas rivals, Japanese companies face significantly more competitors in their economy and therefore in the words of the vision are "exposed to the preliminary round of the war of attrition in Japan."

## FOCUS NEWSLETTER

## Outline of main players in each industry

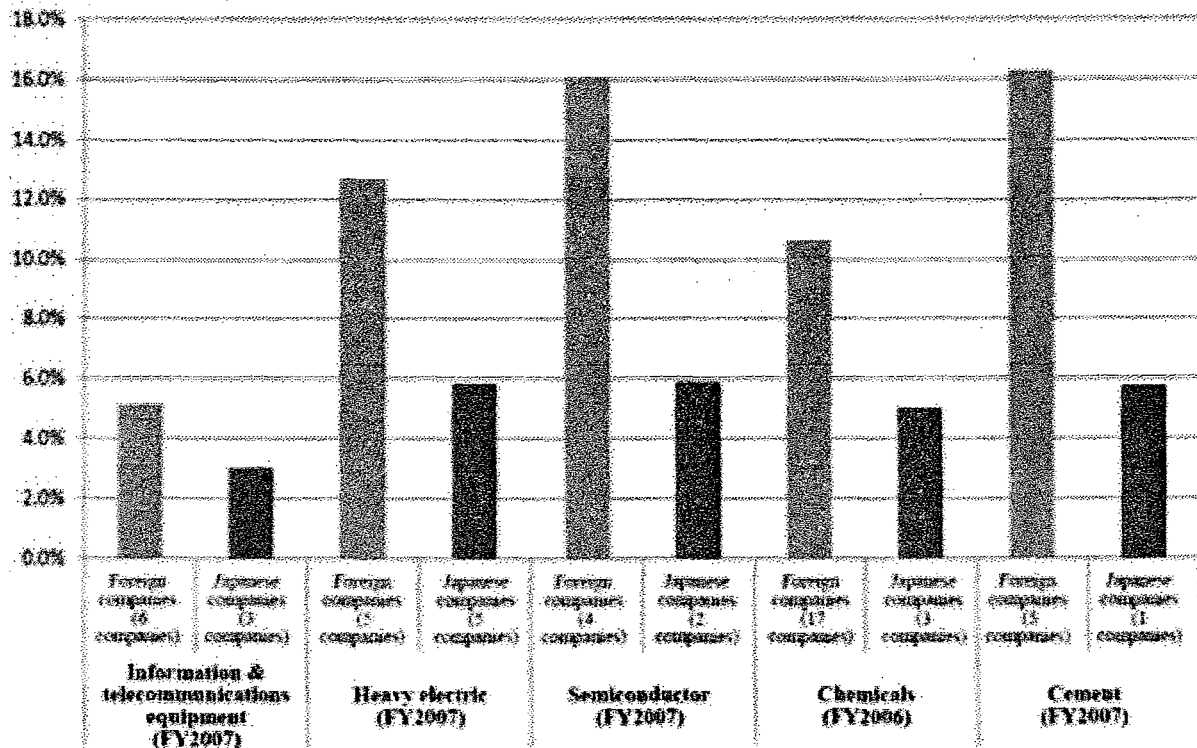
	Japan	North America	Europe	Asia & others
LCD TVs	Sony, Sharp, Toshiba, Panasonic, Funai Electric	Vizio (U.S.)	Philips (Netherlands)	Samsung (ROK), LG (ROK), TCL (China)
Railways	Nippon Sharyo, Hitachi, Kawasaki Heavy Industries, Tokai car corp., Kiaki Sharyo	Bombardier (Canada)	ALSTOM (France), Siemens (Germany)	Hyundai Rotem (ROK)
Nuclear Power	Toshiba (WJ), Hitachi, Mitsubishi Heavy Industries	GE (U.S.)	AREVA (France)	Dongan Heavy Industries & Construction (ROK)
Water business (Drinking water & sewerage)	Uray, Metawater, Ebasco, Kihata, others. *The number of leading companies is 16 in equipment, 9 in plant construction, and 1 in operation and maintenance management.	GE (U.S.), Nalco (U.S.)	Veolia (Europe), Siemens (Germany), Suez (France)	Thames Water (Australia)
Diagnostic imaging equipment	Toshiba Medical systems, Hitachi Medical, Shimadzu, ALOKA	GE (U.S.)	Philips (France)	?

Source: prepared by METI on the basis of assorted materials

As long as its domestic market possesses an excessive number of competitors in the same industry, Japanese firms will lack the scale and profitability levels of foreign counterparts. This adversely impacts their ability to compete overseas and leads to a negative feedback cycle of lowered lower investment, integration, expectations and overall competitiveness.



**Comparison of profitability (5 categories of industry)**  
(Profitability)

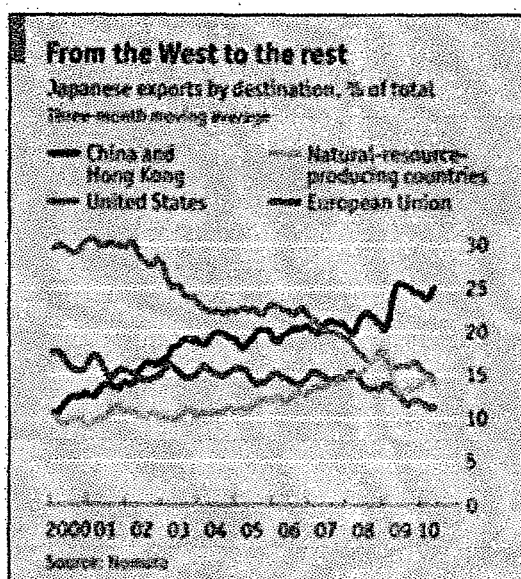


Source: Japanese Ministry of Economy, Trade and Industry

### Flaws in Japan's Corporate Business Model Discourages Globalization

Given their diminished ability to compete overseas, Japanese firms try to compensate by focusing on their domestic market. This means they miss opportunities in global markets. In particular, Japanese firms have been slow to expand into the emerging and developing regions that will increasingly drive global trade and investment moving forward.

Nevertheless, even with this hesitancy, one can see movement toward greater activity in the emerging markets firmly in place. Over the last ten years there has been a dramatic shift in the composition of Japanese exports. Whereas in 2000 the US comprised about 30% and China 10% of Japanese exports, today the US constitutes less than 15% and China has risen to about 25%.

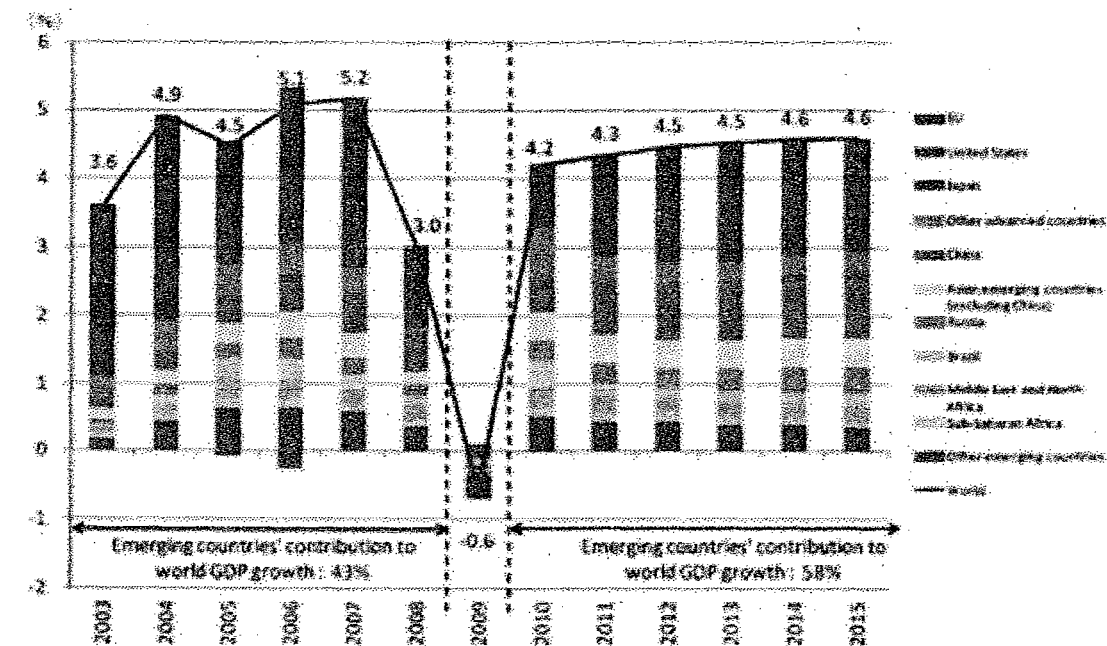


Growth rates in emerging Asia are forecasted to remain strong for some time, and geographic proximity and a continuing technological edge provide Japanese firms with an especially attractive opportunity to expand their competitiveness and global market share. Without concerted engagement, however, they will not benefit to the extent warranted by their capacity and potential, even in areas where they are extremely competitive. This includes infrastructure, cultural exports, industrial machinery and a wide range of advanced technologies.

Shares of Major Countries/Regions in the World's Nominal GDP			
	2005	2009 (partly estimated)	2015 (estimated)
EU	30.3%	28.4%	23.8%
United States	27.8%	24.6%	22.3%
Japan	10.0%	8.7%	7.6%
Emerging Countries	23.7%	30.9%	38.8%
China	4.9%	8.5%	11.5%
Other Asian Countries	3.9%	5.0%	6.3%
Brazil	1.9%	2.7%	3.2%
Russia	1.7%	2.1%	3.7%

Note: Converted into real GDP based on Year 2000.  
Source: IMF "World Economic Outlook, April 2010."

Asia and other emerging countries will lead world's economic growth in the years ahead.



Source: Compiled from IMF "World Economic Outlook," April 2010

The positive effect of an increased focus on emerging markets can be seen in the performance of Panasonic. The *Economist* reports that in the most recent quarter emerging market sales helped the firm post a profit of 84 billion yen as opposed to a 52 billion loss the prior year. This same coverage reported that Toyota has designed a car named Etios for India, which will sell for \$10,000 and Nissan builds a car named Match in India and Thailand with 87% of the parts sourced locally. Shiseido, Japan's largest cosmetics maker has also doubled its sales in China over the last five years and is now entering Mongolia and the Balkans. It has also opened a factory in Vietnam and plans to have 50% of its revenues coming from overseas markets by 2017 – up from 40% today.

### **The Galapagos Effect - How Japan Wins in Technology, but not in Business**

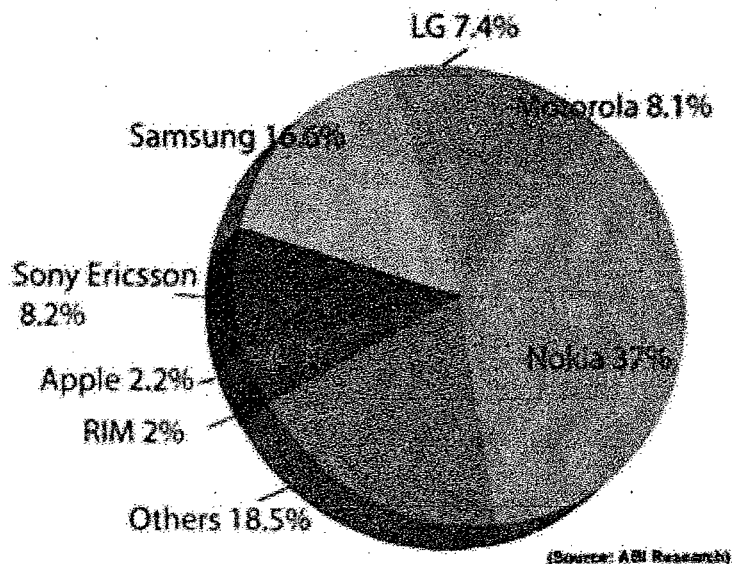
Observers of Japan have widely acknowledged the nation is an island where highly advanced technology has often evolved to meet very specific domestic applications. Embracing the "uniqueness" of Japanese society, many of the resulting products have limited appeal in foreign markets. This paradoxical phenomenon has been termed "The Galapagos Effect". It describes Japan's evolution as a technological leader as well as its inability to globalize demand due to the "unique" and isolated nature of its market.

A good example of this phenomenon is Japan's mobile phone industry. As explained in the *New York Times*, "[Japan's] cell phones set the pace in almost every industry innovation: e-mail capabilities in 1999, camera phones in 2000, third-generation networks in 2001, full music downloads in 2002, electronic payments in 2004 and digital TV in 2005".

However, because these products were produced before infrastructure was fully available and insufficient attention was devoted to developing, or coordinating with, international standards, Japanese manufacturers such as NEC, Panasonic, and Toshiba turned to domestic demand to drive innovation. As a result, the Galapagos Effect has bound many Japanese

firms to a negatively reinforcing cycle. This causes producers to become ever more reliant on domestic consumption, as they tailor business strategies and product design with little regard to the preferences of global consumers.

Mobile Device Vendor Market Share, 3Q 2008

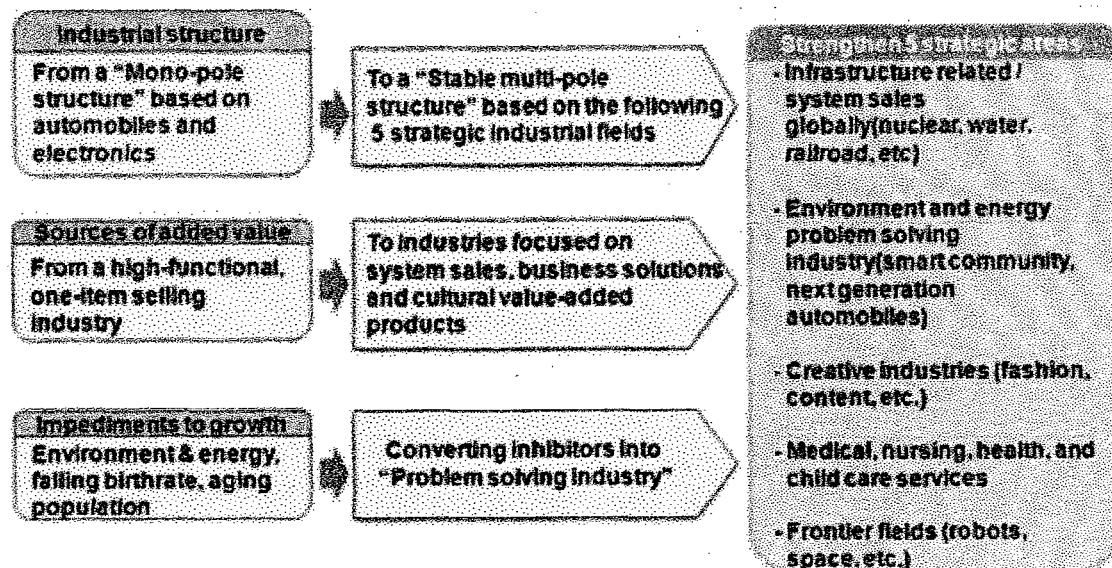


While this may prove a viable approach in the short term, it is hardly sustainable as foreign competitors, such as Motorola, Nokia and Samsung develop the scale and competitiveness needed to establish dominant global market share. As journalist Michael Zielenziger succinctly stated "this is an object lesson in the benefits of free trade. If you learn to compete globally, you can also succeed locally. But as long as you believe you are "unique" and "different," and choose not to commune with others, the lack of integration will someday come back to bite you."

## Enhancing Competitiveness through New Drivers of Growth & Employment

As suggested in a Harvard Business School research study, Japan will have to initiate significant institutional change to harness its technological advantages to become more globally competitive. The report notes "Japan has to adopt legislation in several areas in order to address these inefficiencies and capitalize on its innovation: strengthening antitrust and intellectual property rights enforcement; improving the legal infrastructure; lowering barriers to entry for foreign investment and facilitating the development of the venture capital sector."

### Aims of the Industrial Structure Vision



Source: Japanese Ministry of Economy, Trade and Industry



The Vision aims to rectify this imbalance through four shifts in government and corporate practices:

- **Industrial Structure:** Take Advantage of Technological Superiority;
- **Corporate Business Models:** Incorporate More Globally Accepted Standards;
- **Globalization:** Increase Openness to Improve Investment and Job Creation; and
- **Role of Government:** Create Partnerships Between Public and Private Sectors.

These shifts will enhance the competitive strength of Japanese firms and help them to become more effective global competitors in growth areas including:

#### Five Strategic Areas to Enhance Japan's Industrial Competitiveness

Area:	Examples:
Infrastructure-Related Systems	Nuclear Power, Water, High-speed Rail, etc.
Environment and Energy	Next-Generation Vehicles, Green Technology, etc.
Creative and Cultural Exports	Fashion, Design, Food, Media Content, etc.
Medical and Healthcare	Pharmaceuticals, Biotechnology, Natural Products, etc.
Frontier Fields	Robotics, Nanotechnology, Space, etc.

#### Improving Competitiveness through Changes in Industrial Structure

The first shift called for within the Vision is a change from an industrial structure that is heavily reliant on the automobile industry to one that has a more stable, diversified structure based on the five strategic areas highlighted above.

As part of this change, Japanese firms will need to better apply cultural value models in areas where they have traditionally excelled within a more global context. These include

the provision of high quality and movement toward "system sales". Japan can also improve its global economic standing by attracting more foreign input, and adopting a more global approach to staffing, business and marketing practices.

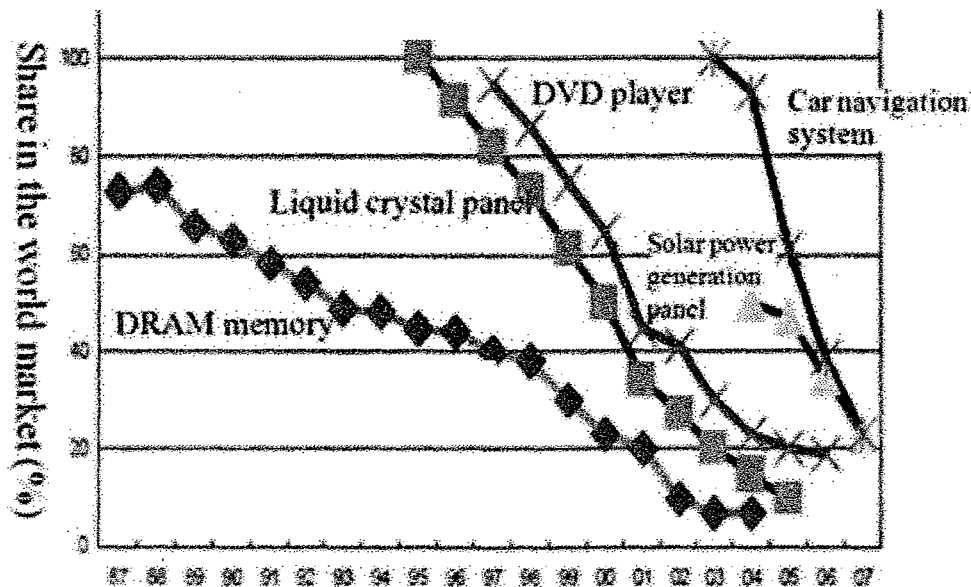
Japan also seeks to transform growth constraints such as environmental concerns, lack of access to energy, falling birthrates and an aging population into "problem solving industries" derived from the solutions. This would promote leadership and innovation in sectors such as environmental engineering, alternative energy, other green technologies, and healthcare, which could be adapted for use in foreign markets.

#### **Reorienting Business Mindset to Align with Global Trends**

The second shift seeks to improve the ability of Japanese firms to combine their technological strength with global business and infrastructure standards. As indicated below, Japanese firms have held a commanding lead in many commercial technologies at the initial phases of marketing and development, which dissipates as foreign competitors demonstrate a greater capacity to design and sell products that meet the needs of global consumers.



### Japanese Market Share in Select Emerging Technologies



Source: Japanese Ministry of Economy, Trade and Industry

The Vision therefore supports a shift toward more open policies and standards. This will make Japanese products compatible, and more responsive to the needs of global consumers. Japan hopes to encourage this transformation through programs such as the Trade Tie-Up Promotion Program (TTPP). As the Economist Intelligence Unit explains, this initiative is "designed to identify local partners meeting the profiles of prospective foreign ventures in Japan. The system now covers import and export, technology transfer, investment, business tie-ups, establishment of offices and factories, and business support".

### Working with Globalization Rather than Against It

The third shift recognizes that as production centers are transferred out of Japan, the nation can only retain its competitiveness by making the country more attractive as a business destination.

Evaluation of stronghold functions by foreign companies  
(Japan's location competitiveness)

FY2007

	Japan	China	India	Singapore
Integrated base in Asia	1st			
Manufacturing base		1st	2nd	
R&D base	1st	2nd		
Back office	2nd	1st	2nd	
Distribution center		1st		

FY2009

Japan	China	India	Singapore
	1st		2nd
	1st	2nd	
2nd	1st		
	1st	2nd	
	1st		2nd

Source: Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan.  
(Ministry of Economy, Trade and Industry, FY2009, FY2007)

Corporate tax reductions to international levels are one of the measures that will be introduced to encourage growth and investment and make Japan a more attractive place to form businesses and employ a workforce.

Corporate Tax Rate			Actual Corporate Tax Burden (2006-8 Average)			
	2000	2009	Sharp	38%	Canon	38%
OECD	34%	26%	Samsung	15.7%	LG	19.2%
Asia*	28%	25%				
Japan	42%	41%				

\* Korea, Taiwan, Hong Kong, Thailand, Malaysia, Indonesia, Philippines

Source: Japanese Ministry of Economy, Trade and Industry

Improved transparency and streamlined legislation and procedures for mergers and acquisitions will also facilitate corporate activity. Additionally, improvements in logistics infrastructure such as the creation of Special Economic Zones, the transformation of Haneda Airport into a 24-hour a day international operation, the pursuit of open sky policies and efforts to increase tourism to Japan from 7 to 25 million visitors will all help to make Japan a more vibrant and competitive international business destination.

Emphasizing the importance of developing Asia, the Vision builds on existing efforts to promote regional economic integration. Japan is already improving relations with countries such as Vietnam. According to the *Japan Times*, it has developed plans for a "Mekong-Japan Economic and Industrial Cooperation Initiative, a framework agreed on at the first Japan-Mekong summit last November". This framework is expected to "help Japan export its expertise in infrastructure development to the Mekong sub-region while opening business opportunities for Japanese companies. It is also expected to give a big boost to the region's economic development."

#### **Facilitating Growth Through Private-Public Partnerships**

The final shift seeks to change the role of government through greater use of public-private partnerships. This includes the formation of consortiums, financial institutions with enhanced functions, and new research and development centers jointly established by industry, academia, and government.

For example, the Innovation Network Corporation of Japan (INCJ) was recently launched to help Japanese firms "win in business as well as technology". The INCJ aims to support improvement of "open innovation," by facilitating the flow of technology and expertise beyond existing organizational structures.

This partnership enhances Japan's ability to achieve global growth through targeted investment and the sharing of expertise between state institutions and the private sector. It consists of an investment fund utilizing 90.5 trillion yen in capital from government as well as industry. These funds will promote growth in sectors such as health care and green technology -- where Japan has a technological advantage -- but has yet to find success in global markets. For example, Brightnews, a Japanese Private Equity News Journal reports the INCJ's investment in an electronic components unit spin-off from Alps Electric Company can be applied to advanced projects such as electric cars and smart grids.

In another instance, the Ministry of Economy, Trade and Industry (METI) has established a public-private forum called the "Smart Grid Promotion Council". This will help to formulate a roadmap to standardize smart grid technology. Other efforts will help to strengthen Japan's support system, technology development, overseas' operations, and information exchanges and partnerships with the United States, Europe and China.

### **Realizing Growth and Employment Targets**

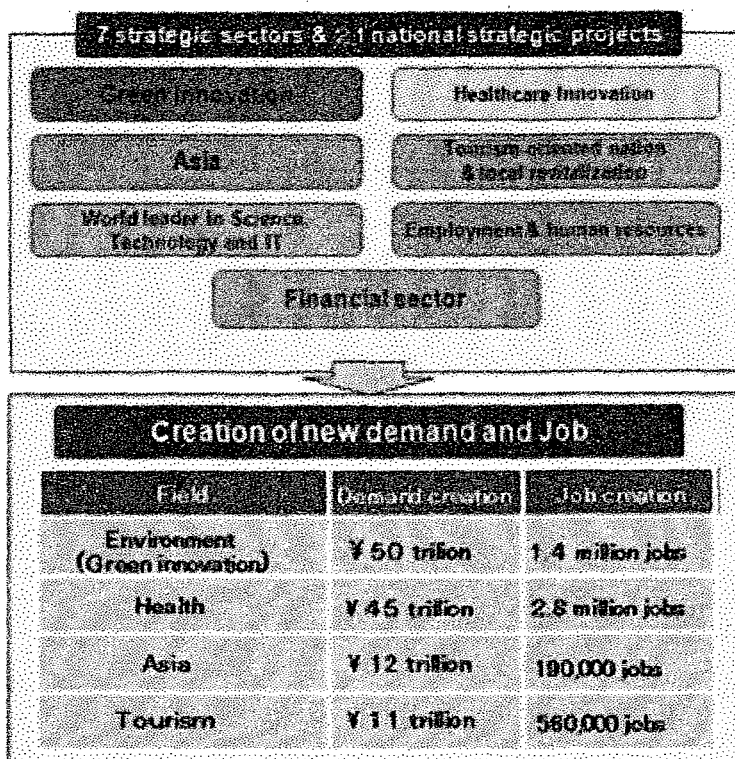
Over the past decade, real growth in Japan registered at a sluggish 1%. Improvements proposed within the Vision are expected to double this growth over the next ten years. The Vision also seeks to address the problem of deflation, recognizing that over the past twenty years, consumer prices have remained stagnant. By FY2011, it seeks to return Japan to positive increases. Finally, the unemployment rate, which has been averaging over 5% for the past two decades, will be targeted at a 3-4% range.

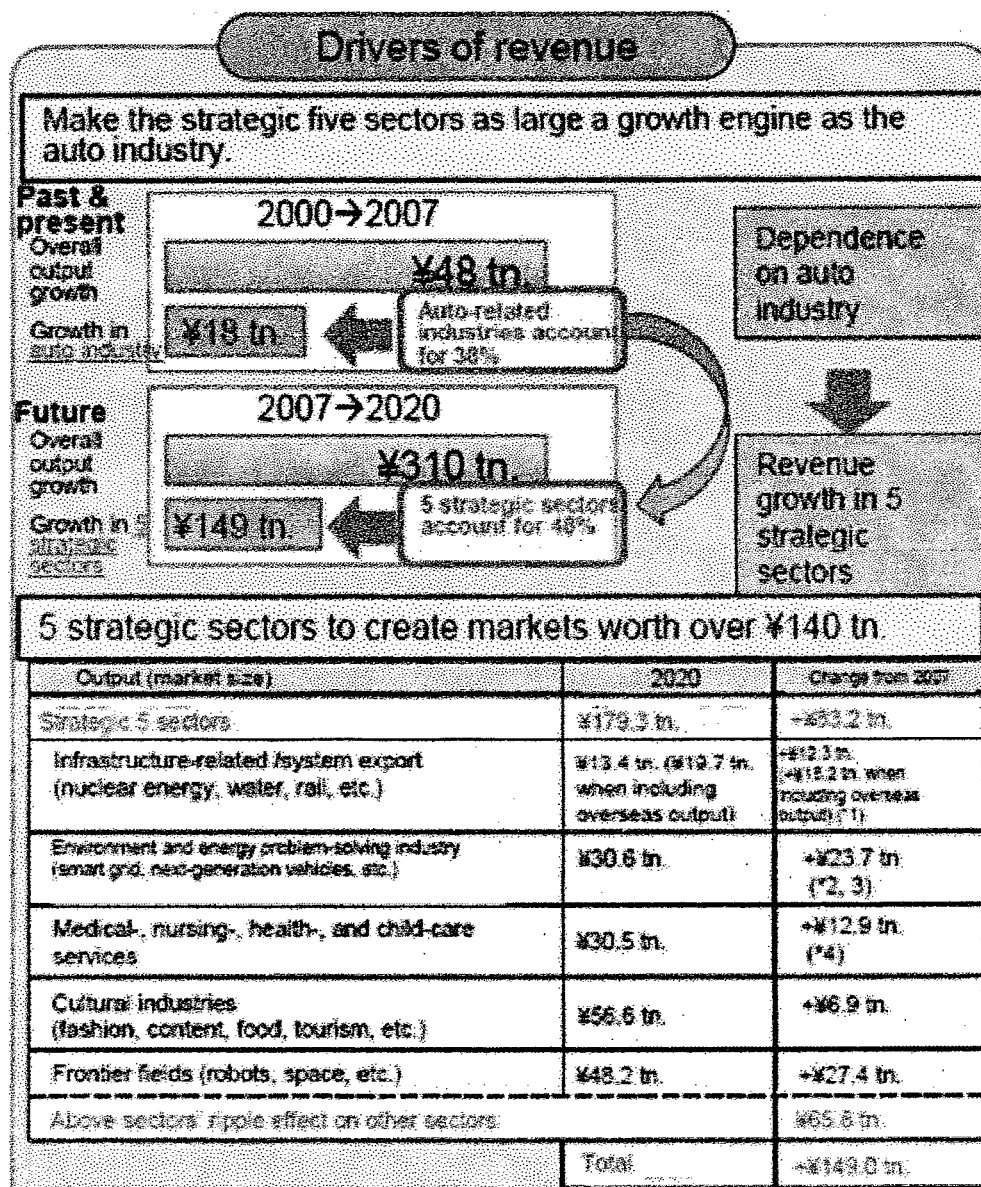
Identifying targets and the measures needed to attain them is a sign indicating Japan understands its underlying problems. Through adoption of the Vision and new Growth Strategy, the Japanese government has committed itself to the process needed to overcome a range of structural constraints.

This includes development of a timetable strategy that includes tangible milestones and targets using a PDCA (Plan, Do, Check, Act) implementation model. Second, more prudent fiscal management will allow a comprehensive review of expenditure priorities, introducing budget reallocations and efficiencies.

## Enhancing Japan as an International Financial Market and Business Center

Through this combined effort of initiating structural reform with more prudent public finance Japan hopes to generate more investment and business activity and to realize revenue gains, higher employment and a more diversified, balanced economy.





Source: Japanese Ministry of Economy, Trade and Industry



Enhancing Japan's position as an international financial market and as a place to base business activity will also improve Japan's overall economic well-being and its ability to compete in global markets.

### **Creating Constituencies that Benefit From Change and Reform**

Japan's old model was highly successful and allowed it to develop into an industrial powerhouse and the world's second largest economy. Naturally, this created interests that benefitted from this system and created resistance to the changes needed to address the structural deficiencies that arose over time.

Specifically, fifty years of rule under Japan's LPD has created resistance to changes in the status quo. Therefore, it should not be surprising that last September's election of the DPJ contributed to expectations that are now being tested as new approaches and coalitions are being formed to lead Japan forward.

As in any democracy, however, success will be dependent on developing constituencies that benefit from forward movement in the areas identified by the Vision and therefore have confidence in the gains that can be achieved through these adjustments.

### **Political Climate Indicates Challenges & Benefits of Progressive Thinking**

Recent developments concerning Japan's political climate are worth noting given their potential effect on implementation of the Vision and New Growth Strategy. As Arthur Mitchell, Chair of the Government Relations Committee of the American Chamber of Commerce in Japan stated, "The DPJ came in with a new approach but they were new and inexperienced and did not implement well."

The inability of the DPJ to quickly deliver on its campaign promises led to the downfall of former Prime Minister Hatoyama and poor performance in the Upper House of Councilors election last July. Although this presents a challenge to implementing the reforms advocated in the Vision and New Growth Strategy, it does indicate the sensitive nature of political economy and the necessity to act in a comprehensive manner.

On a positive note, there are indications the public supports the Prime Minister Kan and understands the challenge. As the Economist Intelligence Unit explains in its most recent country report on Japan, "recent opinion polls found that 80% of the electorate thinks that he deserves time to prove himself as leader of the DPJ and the country."

A further endorsement of Prime Minister Kan was seen in his ability to overcome a strong challenge during this month's election for the DPJ Presidency. In the words of analyst Tobias Harris "Having successfully fended off Ozawa Ichirō's challenge to his leadership of the ruling Democratic Party of Japan — indeed, having defeated Ozawa by an unexpectedly large margin, not only winning the vote among Diet members but also receiving the support of 249 of 300 district-level party chapters and sixty percent of the vote among local representatives — Prime Minister Kan Naoto finally has an opportunity to govern."

Additionally, while it is true that different parties and factions in Japan have different agendas and interests, it is important to understand that all serious participants in the political process recognize the need for change. Therefore, while there are disagreements in respect to the scale and pace of reform as well as some of the steps that must be taken, there is basic agreement on the path forward.



## **Japan's Transition has Important Consequences for the Foreign Investor**

While it would be nice if this transition were seamless, "give and take" adjustment is an unavoidable and essential part of the political and economic process. This is particularly true within a major transformation, such as the one now taking place in Japan. It should therefore be recognized the DPJ is exploring new ground and will require time both to adjust to being the party in power and to translate their campaign promises into sustainable change.

At the same time, for the reasons highlighted above, Japan does not have time to wait out this process and for this reason the Prime Minister's strong showing in this month's election should be seen as a strong positive indicator that the nation is starting to generate the political will needed to initiate these important reforms.

Rebound from two decades of sluggish growth will in any case not be easy, though the analysis and changes proposed in the Vision both recognize the challenges as well as the changes that need to be realized. Debate over these proposals and development of consensus and constituencies who support the provisions that have been outlined can only help to move this forward.

Japan's success in implementing these measures will have real impact and implications -- in its domestic economy as well as other business and financial markets around the world. Foreign corporate and portfolio investors are advised to closely monitor Japan's progress so that they will be positioned to take advantage of the opportunities that result.

*Data, statistics and the reference materials presented within this newsletter have been compiled by JETRO from publicly-released media and research accounts. Although these statements are believed to be reliable, JETRO does not guarantee their accuracy, and any such information should be checked independently by the reader before they are used to make any business or investment decision.*

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## Japanese Fundamentals Drive Adoption of New Industrial Structure Vision

New York, New York - October 5, 2010 - The Japan External Trade Organization (JETRO) Focus Newsletter series provides readers with a snapshot of Japan's macroeconomy, as well as other important topics and trends. It is designed to analyze current developments, including those relating to Japan's economy, its business, financial, investment and political environment, as well as relevant social and cultural themes.

View the October 2010 Newsletter.

A summary is presented below:

### Japanese Fundamentals Drive Adoption of New Industrial Structure Vision

Since the collapse of Japan's bubble economy in 1990, the country has delivered sluggish economic performance despite holding a significant technological advantage...

### Industrial Structure Vision Takes into Account Severity of Current Situation

Former Minister of Economy, Trade and Industry Masayuki Naoshima highlighted the need to devise a comprehensive plan in a recent address which urged Japan to...

### Problem Areas of Japan's Industrial Structure

Postwar Japan has relied heavily on its automobile industry for both domestic and export consumption. As a result, almost 50% of Japan's GDP growth from 2000-2007 can be attributed to...

### Flaws in Japan's Corporate Business Model Discourages Globalization

Given their diminished ability to compete overseas, Japanese firms try to compensate by focusing on their domestic market. This means they miss opportunities in...

### The Galapagos Effect - How Japan Wins in Technology, but not in Business

Observers of Japan have widely acknowledged the nation is an island where highly advanced technology has often evolved to meet very specific domestic applications. Embracing the "uniqueness" of Japanese society, many of the...

### Enhancing Competitiveness through New Drivers of Growth & Employment

As suggested in a Harvard Business School research study, Japan will have to initiate significant institutional change to harness its technological advantages to become more globally competitive. The report notes...

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2010

## **Japan Looks for Economic Growth in Emerging Asia: Annual APEC Meeting in Yokohama to Emphasize Balanced, Inclusive, Sustainable, Innovative and Secure Growth in Region**

2009

2008

2007

**New York, New York - November 8, 2010** - The Japan External Trade Organization (JETRO) Focus Newsletter series provides readers with a snapshot of Japan's macroeconomy, as well as other important topics and trends. It is designed to analyze current developments, including those relating to Japan's economy, its business, financial, investment and political environment, as well as relevant social and cultural themes.

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2005

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2004

A summary is presented below:

2003

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**Japan Recognizes Rising Importance of Emerging Economies**

2000

*The dynamics of the global economy are changing. During the past century, global economic growth was primarily driven by activity in the "the three locomotives," the US, EU and Japan...*

1999

**Emerging Asia Increasingly Drives Global Growth and Demand**

1998

*The biggest potential within developing economies is likely to be in Emerging Asia. This is due to its size and scale, integration into global supply chains and the emergence of growing numbers of...*

1997

**Japan Adjusts Policies and Strategies to Expand in Emerging Markets**

*As the global economic environment evolves and emerging markets assume greater relative importance, Japanese government and corporate leaders are moving to...*

**US and Developed Markets Balance and Support Global Development Efforts**

*When one talks about the potential of Emerging Asia, its improving fundamentals and the opportunities that will be realized through further economic integration, it is important to remember...*

**APEC Annual Meeting in Yokohama to Further Balanced, Inclusive, Sustainable, Innovative and Secure Growth in Region**

*APEC is a forum consisting of 21 Pacific Rim member economies. The forum was established in 1989 to strengthen the Asia-Pacific community by enhancing...*

**Emerging Asia Presents Significant Opportunities to Firms and Investors**

*The need to rebalance the global economy has opened the door to greater opportunities for investment and business activity in emerging and...*

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## Japan Looks for Economic Growth in Emerging Asia:

### ***Annual APEC Meeting in Yokohama to Emphasize Balanced, Inclusive, Sustainable, Innovative and Secure Growth in Region***

NOVEMBER 2010

Since the end of World War II, Japan has looked for economic growth in the United States and Western Europe, catering to the needs of businesses and consumers in the world's most developed markets. This strategy relied on building a strong export-oriented manufacturing capacity. The quality and pricing advantages associated with this model helped to transform Japan into the world's second largest economy.

Japan's success did not go unnoticed. Lower-cost competitors adopted similar models, and, over time, eroded the nation's competitive advantage. To sustain their competitiveness, many Japanese firms moved production offshore. This helped to lower their cost structure, yet global fundamentals again require adjustments to corporate strategies.

Stagnating demand in the US, European Union (EU) and Japan have made the advanced economies more challenging and incremental growth is increasingly found in markets such as Emerging Asia. This is a region that, loosely defined, consists of developing and emerging economies including the Republic of Korea, Hong Kong SAR and Chinese Taipei, as well as China, India, Bangladesh and the ten nations comprising the Association of Southeast Asian Nations (ASEAN), including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand and Vietnam.

The need to expand into these markets means Japanese firms and investors can no longer treat emerging economies as sourcing platforms with little regard to internal consumption. This is leading government

#### IN THIS ISSUE:

- Japan Looks for Economic Growth in Emerging Asia
- Japan Recognizes Rising Importance of Emerging Economies
- Emerging Asia Increasingly Drives Global Growth and Demand
- Japan Adjusts Policies and Strategies to Expand in Emerging Markets
- US and Developed Markets Balance and Support Global Development Efforts
- And More!

and corporate leaders to formulate new strategies and policies to increase regional integration, growth and business activity in these markets.

Intra-regional organizations -- such as Asia-Pacific Economic Cooperation (**APEC**), which encompasses 21 members from developed and emerging economies -- provide a forum that is essential to build the consensus needed to enhance regional growth, efficiencies, free and open trade and greater economic cooperation.

Japan will host this year's annual meeting of APEC Economic Leaders in Yokohama, building on the success of last year's meeting in Singapore. One expected highlight is the adoption of a comprehensive Growth Strategy to promote balanced, inclusive, sustainable, innovative and secure growth in the Asia-Pacific Region.

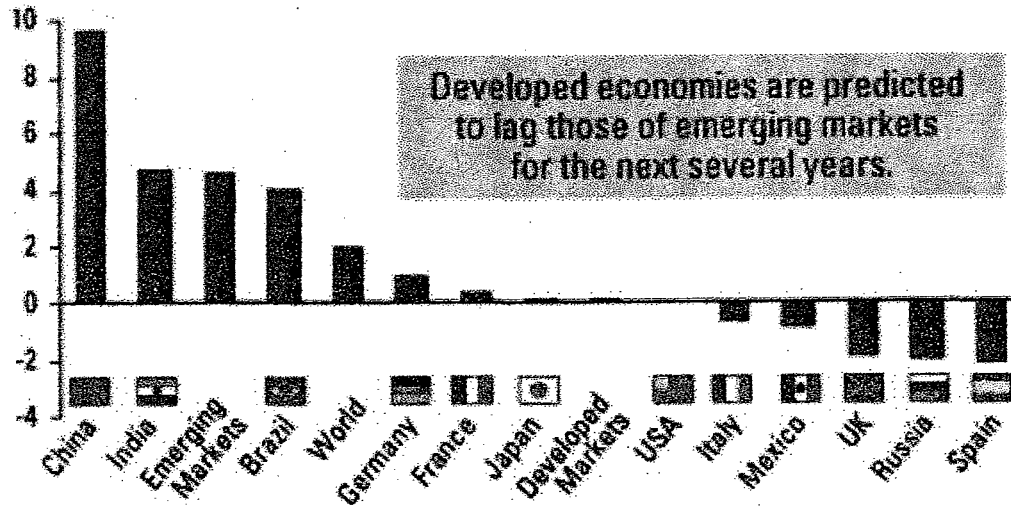
## **Japan Recognizes Rising Importance of Emerging Economies**

The dynamics of the global economy are changing. During the past century, global economic growth was primarily driven by activity in the "the three locomotives," the US, EU and Japan.

Rapid globalization, however, is leading to new innovations, such as the proliferation of high-speed telecommunications and enhanced logistical infrastructure. This is resulting in a more connected, multi-faceted world. Economically, these changes allow companies to coordinate over long distances to optimize their supply chains and reduce their cost structure by moving production to developing economies. Building from a lower income baseline, stronger growth is helping to raise living standards and turn these developing economies into markets in their own right. As a result, they are now becoming the primary incremental drivers of global consumption and production.

## Emerging Markets Leading Growth Around the World

Average growth 2009-2010 (%)



Source: Goldman Sachs Global E&S Research

### China Forecast to be Biggest Contributor to World GDP Growth by 2017

As noted in a Euromonitor [report](#), "A new middle class is developing in emerging market economies as significant proportions of the population rise up from poverty in line with rapid economic growth. The expansion of this middle class not only provides competition for labor and resources but also enormous potential for global consumer markets. As a result, there will be a gradual shift in the dominance of global consumer markets from advanced economies to emerging market economies."

The report goes on to cite World Bank data that estimates the global middle class will almost triple from 430 million in 2000 to 1.2 billion in 2030. China and India alone will account for two-thirds of this increase. When measured on a purchasing power parity (PPP) basis, the IMF forecasts emerging and developing economies will overtake the share of world GDP held by advanced economies by 2014. Euromonitor states, "China is forecast to be the biggest contributor to world GDP growth by 2017, overtaking the USA and accounting for 18.4% of world GDP in PPP terms from 7.1% in 2000. India, with a share of 6.2% of world GDP in PPP terms, will be the third largest contributor toward world GDP in 2017."



### Ranking of Market Size for Major Goods

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th
Automobiles	China	United States	Japan	Germany	Brazil	France	Italy	India	United Kingdom	Canada
Desktop PCs	China	Brazil	United States	France	United Kingdom	Japan	Spain	Poland	Australia	Russia
Digital TVs	United States	China	United Kingdom	Germany	France	Italy	Japan	Spain	Brazil	Canada
Mobile phones	United States	China	Japan	France	India	Russia	Mexico	South Korea	Brazil	Germany
Toiletry products/cosmetics	United States	Japan	Brazil	China	Germany	France	United Kingdom	Italy	Spain	Russia

Note: Ranking for automobiles based on # cars and other goods on retail sales. 2009 Values for "toiletry products/cosmetics" and "automobiles," and 2009 for other goods. Shaded cells indicate Brazil, Russia, India and China (BRIC) countries. Sources: MarkLines, Co., Ltd. (automobiles), Euromonitor International 2010 (other goods).

At the same time, it is important to recognize even if a market such as China overtakes the US in terms of total GDP in coming decades as many analysts forecast, the US, as well as Japan and Western Europe will retain substantial leads in per capita income. For example, Morning Money reports, "where China still lags behind its closest economic competition is in the area of per-capita income. With a World Bank ranking of 124, China comes in at \$3,800 a year, which is a far cry from Japan, which is ranked No. 32 at \$37,870, and the United States, ranked No. 17 at \$46,513."

That said, basic mathematics dictates incremental growth, and demand will increasingly come from the developing world. To cite one example of the scale and potential, in 2009 the annual increase of cars sold in China alone nearly equaled the total number of cars sold in Japan. Rising living standards and slow movement toward PPP, as well as favorable demographics



and geographical factors, including supplies of natural resources, all favor growth in emerging economies. These trends will continue to propel engines of growth like the BRIC economies, as well as an increasingly integrated and vibrant ASEAN.

#### *Greater Importance of Emerging Economies Leads to Shifts in Multilateral Governance*

The political effects of these changes are already evident, and the importance of developing countries within multilateral institutions, such as the International Monetary Fund (IMF) and World Bank, is increasing. Countries such as China, Indonesia, Brazil and India are pushing for greater representation. The New York Times reported that as developing countries increase capital contributions to the World Bank, the voting structure has been realigned with "a shift in representation that will give them 47.19% of voting power, up from 44.06%." Finance Ministers of the Group of Twenty (G-20) industrialized and emerging market economies met in Gyeongju, Korea in October and agreed on proposed reform of the IMF. This will shift country representation within the institution toward "large, dynamic emerging market and developing countries."

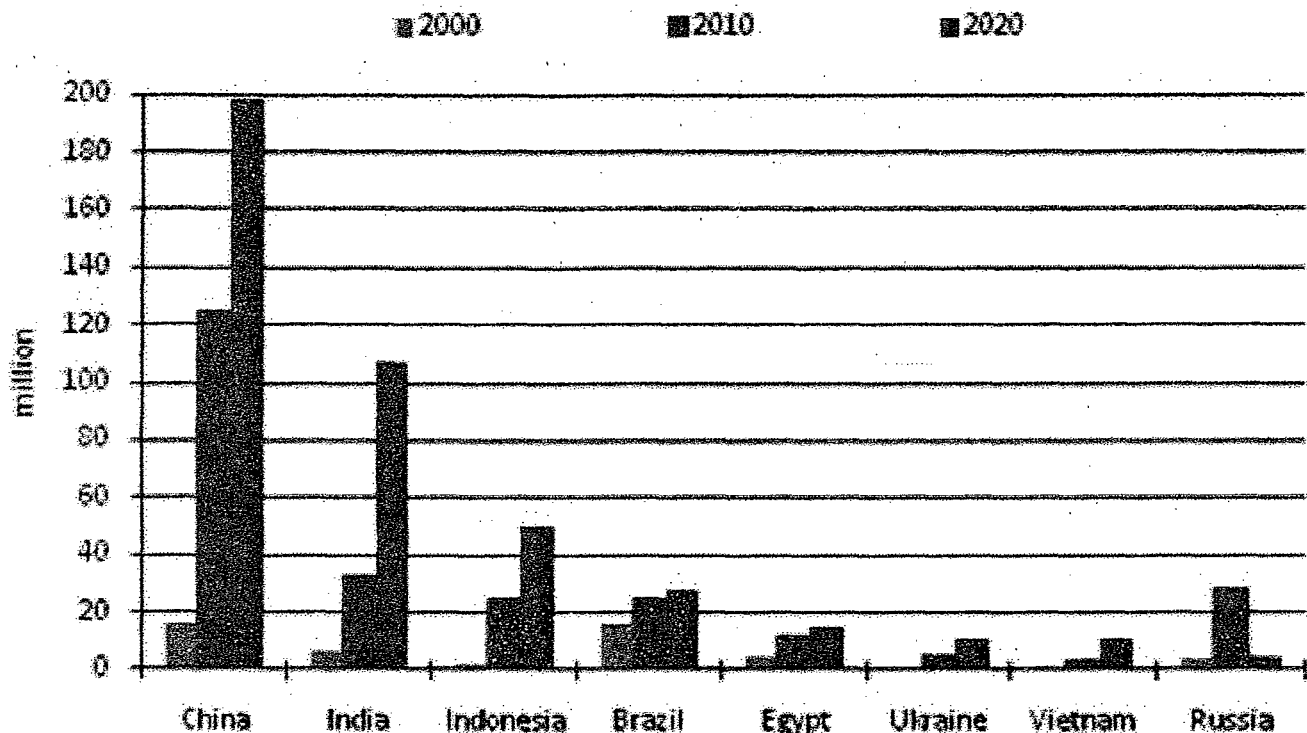
#### **Emerging Asia Increasingly Drives Global Growth and Demand**

The biggest potential within developing economies is likely to be in Emerging Asia. This is due to its size and scale, integration into global supply chains and the emergence of growing numbers of consumers with higher discretionary incomes.

Home to the world's largest populations, many analysts believe China and India hold the biggest potential, followed by Indonesia and other economies that benefit from growth in the region. Increases in education, technical skills and capacity are key factors leading to rising per capita income. In 2010, for example, Euromonitor estimates households with annual disposable incomes of US\$5,000-15,000 as a percentage of total households will be 32% in China, 15% in India and 36% in Indonesia. In 2020, this will reach 46% in China,

41% in India and 58% in Indonesia.

**Number of households (in millions) with annual disposable incomes of US\$5,000-15,000 in selected economies: 2000-2020**

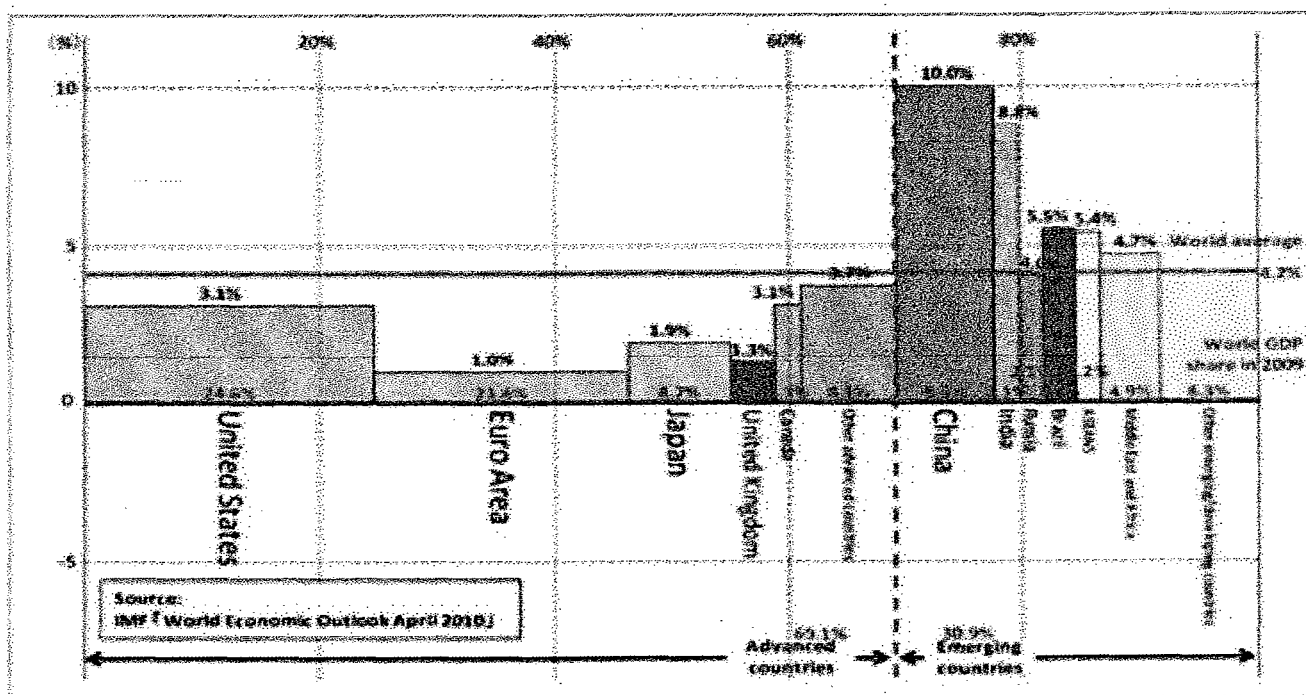


Source: Euromonitor International from national statistics. Note: Data for 2010 and 2020 are forecasts.

The importance of Emerging Asia becomes even more apparent when examining households with annual disposable income of \$5,000-15,000. Euromonitor reports households within all emerging economies are expected to reach 331 million in 2010 from 104 million in 2000. Emerging Asia will account for 62% of this amount in 2010 compared to only 33% in 2000. This will rise to 80% by 2020 with China and India accounting for 306 million of the 488 million households in this income band.

For this reason alone, Emerging Asia will play a more significant role in maintaining future global economic growth and stability. For example, despite the economic turmoil of the past two years, the Asian Development Bank (ADB) predicts Asia will grow 8.2% this year, revising its 7.5% forecast made in April. As seen in the chart below, this above average performance is essential to realize the IMF's 4.2% global forecast for the current year given subpar growth in the US, EU and Japan.

### Emerging Market Performance Raises IMF Global 2010 GDP Projections



### Sustained Growth in Emerging Asia Requires Increased Domestic Consumption

As most developing economies in Asia have sought growth through exports to the US and other advanced economies, domestic demand has not been important. In the current economic environment, however, their traditional trading partners can no longer continue absorbing these imbalances. A greater reliance on domestic demand is essential. Not only is

this necessary to sustain growth and momentum in these economies, it will also diffuse the potential for global trade tensions and create economic activity that will benefit the world as a whole.

Moving forward, the primary challenge for Emerging Asia will be its ability to shift toward a greater reliance on domestic demand and services. This point is emphasized by ADB Chief Economist Jong-Wha Lee, who maintains these markets must rebalance growth through policies that maintain strong domestic demand and efficient allocation of resources. This includes a heightened focus on domestic consumption by improving the investment climate and social infrastructure. ADB and other public and private institutions also advocate an acceleration of financial development through initiatives such as development of a local currency, Asian Bond Market and greater regional integration.

## **Japan Adjusts Policies and Strategies to Expand in Emerging Markets**

As the global economic environment evolves and emerging markets assume greater relative importance, Japanese government and corporate leaders are moving to accommodate these changes. Policy-makers are now working to adopt new strategies, policies and guidelines and to adjust existing initiatives to encourage and facilitate greater activity in these markets. The country also continues to place a heavy emphasis on maintaining strong relations with its traditional partners.

In recognition of these changing fundamentals, Japan's Ministry of Economy, Trade and Industry (**METI**) outlined a number of steps that need to be taken in its 2010 White Paper on International Trade, including:

### **a) Targeting Emerging Markets**

- Greater focus on innovation and marketing to these economies;
- Strategies establishing specifications that address needs of these markets;

- Maintaining value of the “made in Japan” brand;
- Facilitating infrastructure development in Asia; and
- Promoting environment-friendly systems and practices.

*b) Opening up Japan*

- Facilitating the flow of human resources, goods, money and knowledge;
- Promoting Japan as a base for corporate and investment activities; and
- Establishing a good environment for knowledge-based economy and services.

*c) Contributing to Development of Global Economic Frameworks*

- Promoting regional economic integration, e.g., Economic Partnership Agreement (EPA) and Free Trade Agreement (FTA);
- Improving regional and global market environment, e.g., Bilateral Investment Treaties, Standards;
- World Trade Organization and Doha Development Agenda; and
- Japan-chaired APEC 2010.

While these changes are largely focused on Emerging Asia, greater attention and involvement is also being initiated in other emerging markets such as Latin America, Africa and the Middle East. Although Japan has had a presence in these markets for a long time, they have primarily served as platforms to source inputs, establish low-cost manufacturing or absorb excess production of products originally produced for advanced economies. This is prompting a reevaluation of strategies and approaches by Japanese companies.

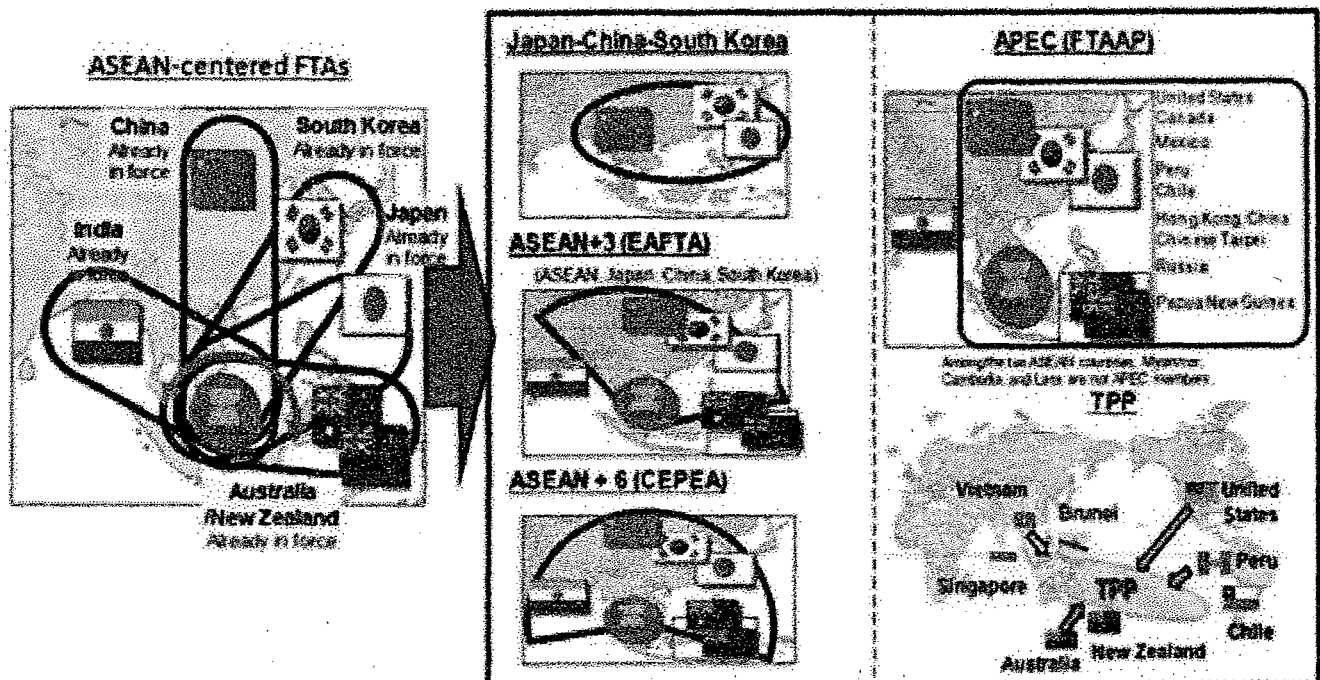
*Japan Seeks to Promote Greater Regional Integration Through Asia-wide FTAs*

A major component of Japan's strategy is establishment, inclusion and participation in a range of FTAs. To date, efforts to promote Asian economic integration have largely focused on integration within an ASEAN Free Trade Area (AFTA), and five ASEAN-centered FTAs concluded individually with Japan, the Republic of Korea, India, China and Australia/New

Zealand.

To build on these achievements, Japan is now actively considering a number of broader agreements. These include a potential agreement between Japan-China-South Korea, an East Asia FTA (**EAFTA**), which seeks to join these three countries with ASEAN, the Comprehensive Economic Partnership for East Asia (**CEPEA**), which would build on the EAFTA framework by including three additional countries: India, Australia and New Zealand. A proposed APEC-wide Free Trade Area of the Asia-Pacific (**FTAAP**) is also in the planning stages. In addition, as of early November, Japan is considering whether to participate in a Trans-Pacific Partnership (**TPP**) Agreement.

### Toward Asia-wide FTAs



To further realize the goal of a more integrated Asia, organizations such as APEC, ASEAN, the newly-established Economic Research Institute for ASEAN and East Asia (ERIA) and institutions such as ADB are also introducing multilayered frameworks in the Asia-Pacific region to enhance economic development and sustainability issues.

To facilitate involvement by Japanese firms, Japan's government is facilitating corporate involvement through several public finance institutions. The most prominent of these are Nippon Export and Investment Insurance (**NEXI**), the Development Bank of Japan (**DBJ**) and the Japanese Bank for International Cooperation (**JBIC**):

- NEXI plays a similar role as the Export-Import Bank of the US, supporting foreign trade by reducing the risks associated with overseas transactions such as war and prohibitions on foreign currency conversion. For example, Reuters reports NEXI recently entered a deal to insure a loan from Bank of America to help finance Japanese companies doing business in emerging markets.
- DBJ is a government-owned financial institution that offers financial services to supplement those provided by commercial financial institutions. DBJ often helps to streamline financing of companies and projects in developing countries by coordinating with institutions such as the World Bank's International Finance Corporation (**IFC**).
- JBIC provides policy-based finance that contributes to the sound development of Japan and the international economy. It focuses on improving finance operations in emerging markets to promote overseas development and the competitiveness of Japanese industry, especially to facilitate access to natural resources.



## **US and Developed Markets Balance and Support Global Development Efforts**

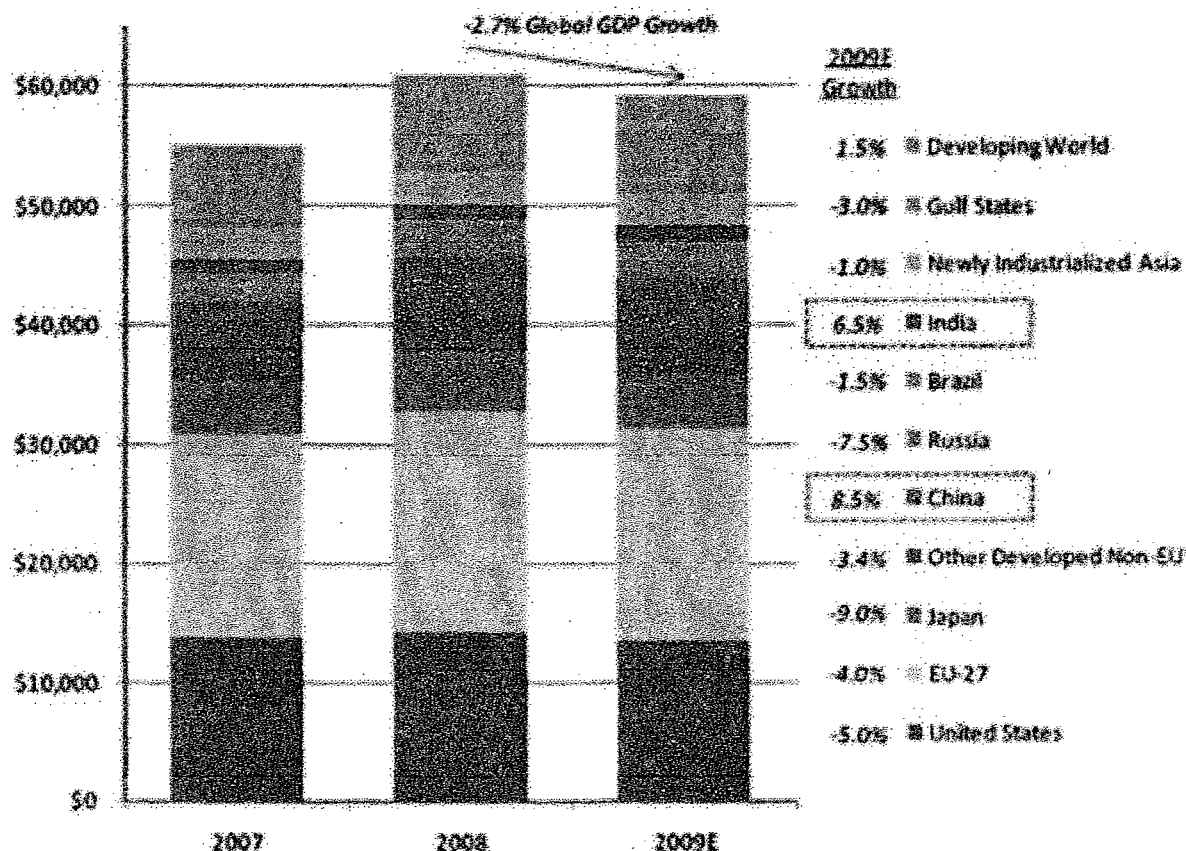
When one talks about the potential of Emerging Asia, its improving fundamentals and the opportunities that will be realized through further economic integration, it is important to remember this is the promise of incremental growth -- and the US, EU and other advanced nations are likely to constitute the largest share of global GDP for many decades. This is true even if the most optimistic forecasts are realized. Advanced nations also provide balance, stability, capital and support to global development efforts.

Further, while movement toward greater domestic demand is essential to sustain growth in emerging economies, the US, EU and Japan continue to serve as important markets for goods and services. Additionally, as emerging and developing economies in Asia mature and demand increases, they will be stronger candidates for investment, as well as destinations for products sourced from the US and other developed economies. The global economy as a whole will be stronger as a result.



### Global GDP by Region (2007 – 2009E)

(\$ in Billions)



Source: Hayman Advisors from Thoughts from the Frontline newsletter

For this reason, it would be a mistake to believe expansion into emerging economies means a lower commitment to advanced economies and traditional alliance and trading partners. For example, the importance Japan continues to accord its relationship with the US and its belief the US can make a major contribution to the development of Asia was noted by former Prime Minister H.E. Dr. Yukio Hatoyama, in his speech delivered at last year's 2009 APEC summit in Singapore. Former Prime Minister Hatoyama stated, "Of course developing Asia is not free of problems. In this regard, the presence of the United States has been playing and will continue to play an important role in ensuring the peace and prosperity

of Asia, including Japan. This is one of the greatest reasons that Japan continues to regard the Japan-US alliance as the linchpin of Japanese foreign policy ... Together with you, I would like to welcome this commitment."

Further, emerging Asian nations are also eager for the US to play a more active role in the region. In a 2008 speech, for example, at an event organized by the United States Indonesia Society (**USINDO**) in Washington, D.C., Indonesian President Susilo Bambang Yudhoyono's proposed stronger bilateral relations, within an initiative that has since been developed into a US-Indonesia Comprehensive Partnership. This program encourages engagement between the US and Indonesia to improve security and economic cooperation.

In the partnership, the two countries seek to exchange professional, technical, and cultural experiences. In late 2009, for example, an agreement was signed to establish a Peace Corps program in Indonesia. Further, both countries pledged to enhance environmental security. Such agreements allow for greater exchange of ideas and broadening of common economic and security goals.

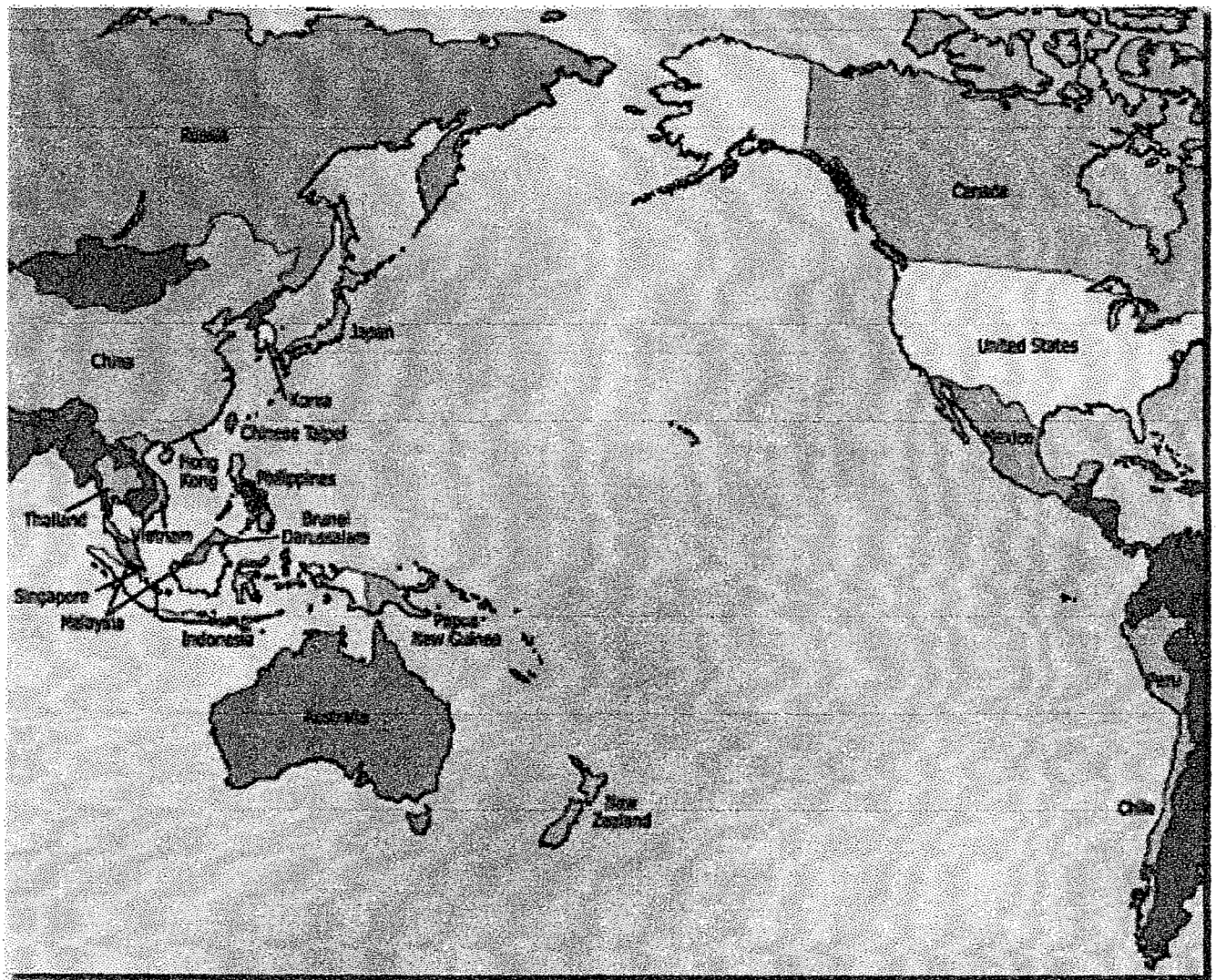
### **APEC Annual Meeting in Yokohama to Further Balanced, Inclusive, Sustainable, Innovative and Secure Growth in Region**

APEC is a forum consisting of 21 Pacific Rim member economies. The forum was established in 1989 to strengthen the Asia-Pacific community by enhancing economic growth and prosperity in the region. Following the success of other regional economic blocs, such as the EU, and given the increased importance of regional economic integration between countries in the Pacific Rim, APEC's primary strategy to achieve growth is focused on promoting regional free trade and economic cooperation.

According to its charter, APEC attempts to achieve goals strictly through dialogue; it is "the only international intergovernmental grouping in the world committed to reducing barriers to trade

and investment without requiring its members to enter into legally binding obligations.”

### Countries Represented in APEC



The importance of APEC is reflected by global production and population accounted for by member economies. According to APEC, the 21 member economies account for


## FOCUS NEWSLETTER

"approximately 41% of the world's population, approximately 54% of world GDP and about 44% of world trade."

*APEC Growth Strategy to Recognize Multifaceted Challenges to Regional Development*

Development of APEC's Growth Strategy is being coordinated by Japan, the host economy for this year's annual meeting. Following comprehensive discussions among APEC member economies, the parameters of a multifaceted strategy were agreed upon at the High-Level Policy Round Table in Beppu, Japan last August. Development of this strategy will be finalized and announced at the annual meeting in Yokohama.

## APEC Japan 2010 Meetings

<b>APEC Japan 2010 Symposium</b> (Dec. 9-10 2009, Tokyo)	<b>Tourism Ministerial Meeting</b> (Sep. 22-23, Nara City)	
<b>ISOM</b> (Dec. 11 2009, Tokyo)	<b>SME Ministerial Meeting</b> (Oct. 2-3, Gifu City)	
<b>SOM I and Related Meetings</b> (Feb. 22-Mar. 7, Hiroshima City)	<b>Ministerial Meeting on Food Security</b> (Oct. 16-17, Nagata City)	
<b>SOM II and Related Meetings</b> (May 24-Jun. 4, Sapporo City)	<b>Ministerial Meeting on Telecommunications and Information Industry</b> (Oct. 30-31, Nago City)	
<b>Meeting of Ministers Responsible for Trade</b> (Jun. 5-6, Sapporo City)	<b>Finance Ministers' Meeting</b> (Nov. 6, Kyoto City)	
<b>Energy Ministers' Meeting</b> (Jun. 19-20, Fuku City)	<b>CSOM</b> (Nov. 7-8, Yokohama City)	
<b>Growth Strategy High-Level Policy Round Table</b> (Aug. 7-9, Beppu City)	<b>APEC Ministerial Meeting</b> (Nov. 10-11, Yokohama City)	
<b>SOM III and Related Meetings</b> (Sep. 15-26, Sendai City)	<b>APEC Economic Leaders' Meeting</b> (Nov. 13-14, Yokohama City)	
	<b>(ABAC)</b> (Nov. Yokohama City)	
	<b>(CEO Summit)</b> (Nov. Yokohama City)	
	<b>(SME Summit)</b> (Nov. Yokohama City)	

Recognizing the multifaceted challenges that affect progress in the region, the Growth Strategy will seek to initiate long-term sustainable development through growth in five key areas:

- **Balanced Growth**: Initiatives to unwind imbalances within and across APEC economies through effective macroeconomic policies and structural reforms that complement G20's efforts to pursue balanced growth in the region;
- **Inclusive Growth**: Promoting policies in fields such as job creation, human resource development, small and medium-sized enterprises and entrepreneurship development while creating new economic opportunities for women and more inclusive access to finance;
- **Sustainable Growth**: Enhancing energy efficiency and development of a low-carbon energy sector by improving access for environmental goods and services, development of green industries and energy conservation activities;
- **Innovative Growth**: Improving environment for research and development and regulatory infrastructure conducive to innovation, such as those related to technological applications, digital prosperity, professional workforce mobility, protection of intellectual property rights and standardization; and
- **Secure Growth**: Provide a secure environment by promoting new and coordinated policies in fields such as counterterrorism, prevention and countering of emergency preparedness, pandemic diseases and food security.



## **Emerging Asia Presents Significant Opportunities to Firms and Investors**

The need to rebalance the global economy has opened the door to greater opportunities for investment and business activity in emerging and developing economies. While one cannot forecast the future with certainty, strong fundamentals, favorable demographic trends and rising numbers of households earning incomes that provide higher levels of discretionary income, all indicate markets such as Emerging Asia will increasingly serve as the incremental drivers of global growth and demand moving forward.

Companies and investors in Japan and the US need to recognize and embrace these trends. That is because these markets are almost sure to assume accelerating shares of global GDP, and it will be hard to maintain growth and competitiveness without an expanded presence in these economies. This will require a new orientation that views the developing world as a growth market -- rather than simply as a production platform and venue that can absorb products that cannot be sold in their domestic economies.

On the government side, special care is needed to maintain movement toward this rebalancing. This is vital both to diffuse the potential for trade tensions during this often painful adjustment. It is also needed to ensure these markets have the physical and soft infrastructure and capacity necessary to absorb capital and sustain rapid economic growth while maintaining the social and political stability and environmental integrity that is vital if this transformation is to succeed.

Forums such as APEC are extremely important to maintaining positive movement in this direction. This month's annual meeting in Yokohama promises to build on initiatives launched last year in Singapore and announcement of a comprehensive Growth Strategy will provide further impetus and guidelines that will help lead to balanced, inclusive, sustainable, innovative and secure growth in the region.

Future APEC summits in Hawaii and Russia should reinforce this plan by focusing on region-wide structural reform, entrepreneurship, job creation and improvements in security and both hard and soft infrastructure. This will serve to provide the region with a greater capacity to absorb capital and open the door to a wide range of new business and investment opportunities. It will also help to maintain growth and momentum for the benefit of businesses and consumers around the world.

*Data, statistics and the reference materials presented within this newsletter have been compiled by JETRO from publicly-released media and research accounts. Although these statements are believed to be reliable, JETRO does not guarantee their accuracy, and any such information should be checked independently by the reader before they are used to make any business or investment decision.*

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